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INFO RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE
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RUEKJCS/JOINT STAFF WASHDC
RUEHGV/USMISSION GENEVA 0681
RUEHVEN/USMISSION USOSCE 2650
RUCNDT/USMISSION USUN NEW YORK 2030
RUEHNO/USMISSION USNATO BRUSSELS BE
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RUEHLMC/MILLENNIUM CHALLENGE CORP
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C O N F I D E N T I A L SECTION 01 OF 02 BISHKEK 000984

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SUBJECT: VIEWS FROM BISHKEK ON UKRAINIAN-KYRGYZ WTO TALKS

REF: KYIV 331

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Classified By: Deputy Chief of Mission Lee Litzenberger for Reasons 1.4
(b) and (d)

¶1. (C) Summary: A Ukrainian memorandum proposing \$14 million in humanitarian and technical assistance to cover an outstanding \$27 million Ukrainian debt to Kyrgyzstan may not unlock obstacles preventing the conclusion of bilateral negotiations relating to Ukraine's WTO accession. The Ukrainian ambassador to Bishkek dismissed complaints concerning Kyrgyz light bulb and agricultural exports to Ukraine as "artificial issues" designed to support the Kyrgyz position in the debt negotiations. While the Kyrgyz are reviewing the Ukrainian debt memorandum, a Kyrgyz trade official, who criticized the Ukrainian debt proposal, maintained there were still trade issues to be resolved. Even if, as the Ukrainian ambassador suggested, other countries are behind Kyrgyzstan's intransigence on the trade and debt issues, the Kyrgyz will likely have difficulties accepting a Ukrainian proposal that only covers roughly half the debt through a multi-year barter arrangement masked as assistance. End summary.

Ukrainian Ambassador: We've Made an Offer...

¶2. (C) Ukrainian Ambassador to Kyrgyzstan Vladimir Tyaglo told emboff August 1 that the "oral agreement" reached at the May 15 Kyrgyz-Ukrainian joint commission meeting regarding the \$27 million Ukrainian debt to Kyrgyzstan had since been presented to Kyrgyz authorities in a written memorandum. However, Ambassador Tyaglo conceded that the humanitarian and technical assistance envisioned in the memorandum is "less than expected)- slightly more than half -- which would be supplied over a three-year period." He confirmed that Ukraine had no plans to offer foreign assistance to Kyrgyzstan to cover the remaining debt, and repeated the

Ukrainian position that there is no "state debt." (See reftel for more background on the debt's origins.) He added that the Kyrgyz have been asked to select Ukrainian products, which the Kyrgyz would receive as humanitarian and technical assistance.

13. (C) Ambassador Tyaglo discounted the agricultural and light bulb trade disputes raised in the context of Ukraine's World Trade Organization (WTO)-related talks with Kyrgyzstan as "artificial issues" designed to support the Kyrgyz hand in the debt discussion. While highlighting the current tariff-free bilateral trade regime between Ukraine and Kyrgyzstan, he noted that an existing five-year "embargo" on Kyrgyz light bulbs would lapse in early 2008. Ambassador Tyaglo said Ukraine had requested some light bulb data in order to expedite the expiration of this embargo, but had not yet received any response. He argued that Kyrgyzstan did not export agricultural products to Ukraine, and stated that the \$46 million in 2006 bilateral trade consisted mostly of alcohol, tobacco, candy and industrial equipment.

14. (C) While citing "strong external pressure on Kyrgyzstan" for Kyrgyz intransigence, Ambassador Tyaglo conceded that he was not aware of any bilateral presidential or prime ministerial discussions of these issues since March. He noted that any debt memorandum would require parliamentary approval in both states, and therefore would not estimate when final resolution might be reached.

...that the Kyrgyz Can Refuse

15. (C) Deputy Foreign Minister Sarbayev told the DCM July 31 that "the WTO issue with Ukraine is being resolved and only details need to be worked out," adding that the two sides had

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agreed on the amount of the debt, and Ukraine was now determining whether to resolve it as a foreign debt (which would require parliamentary approval) or as a "cash and kind" assistance offering. However, Anarkan Rakhmanova, the Ministry of Economic Development and Trade official responsible for WTO issues, advised Embassy August 1 that the Ukrainian debt memorandum offer is "nonsense." Rakhmanova argued that the \$14 million Ukrainian proposal contained a ten-year payment period, and seemed very similar to a deal Ukraine signed, but did not honor, with Moldova several years ago. While acknowledging that the Kyrgyz Ministry of Finance handled the debt issue, Rakhmanova believed that the Kyrgyz would eventually insist on a full cash payment of the debt as part of a formal agreement, and not a memorandum, more strongly obligating Ukraine to pay. (Note: Ambassador Tyaglo confirmed to emboff earlier that Kyrgyz Finance Minister Japarov had requested a delay in responding to the Ukrainian proposal. End note.)

16. (C) Despite the tariff-free bilateral trade regime, Rakhmanova claimed that Ukraine imposed a 37% duty on Kyrgyz light bulbs three years ago and ignored Kyrgyz requests to eliminate taxes on Kyrgyz produce. In response to Ambassador Tyaglo's comment about seeking light bulb data, Rakhmanova conceded that the Russian-owned Kyrgyz light bulb firm had "not been cooperating" with her ministry recently.

Comment

17. (C) Even if external (Russian) pressure on Kyrgyzstan is hindering a Kyrgyz-Ukrainian WTO agreement, there appear to be underlying issues which need resolution. While Kyrgyz arguments in favor of light bulb and agricultural exports may be suspect, Kyrgyz perceptions that Ukraine is attempting to dodge the full debt obligation will not win converts in the Kyrgyz government for concluding a market access agreement. Even if Kyrgyz officials favored the proposed debt memorandum, a barter transaction covering only half of the

debt will face obstacles in the Kyrgyz parliament. Kyrgyz "concessions" on trade issues may only occur when the Ukrainians present a more acceptable debt deal. Rakhmanova's observation to Embassy that this issue will remain for quite a long time if Ukraine does not propose something more "fair and realistic" could well reflect reality.

YOVANOVITCH